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USSR SHELVES PLANS FOR 35-HOUR WORKWEEK
AND ABOLITION OF INCOME TAX



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USSR SHELVES PLANS FOR 35-HOUR WORKWEEK
AND ABOLITION OF INCOME TAX

Over the past year or two the better deal promised to Soviet workers and employees* for the 1960's has suffered a series of long or indefinite postponements on key measures affecting both income and hours of work. Faced with an increasingly taut economy, the regime obviously has decided to renege on major promises that had been repeatedly broadcast as advancing the well-being of the Soviet worker. Measures calling for shorter working hours, a higher minimum wage, the elimination of the income tax, and a rise in minimum monthly pensions all have suffered a substantial setback.

Most Soviet workers in 1964 and in 1965 will continue on a 6-day, 41-hour workweek in spite of an earlier promise to reduce the workweek to 40 hours in 1962 and to 35 hours in the period 1964-68. A boost in minimum monthly wages -- from 27 to 40 rubles -- scheduled for 1962 has now been postponed to 1965, and a further increase to 50 rubles originally scheduled for 1965 has been dropped. The planned elimination of the income tax during 1960-65 was halted in 1962 and has not been resumed. Finally, a rise in minimum monthly pensions from 25.5 to 34 rubles in 1963 has been postponed indefinitely.

The delay in wage and pension hikes and the retention of the income tax probably reflect the planners' efforts to hold the line on purchasing power because of shortfalls in production of consumer goods. The shelving of the 35-hour workweek may stem from a reassessment by the Soviet leadership of the labor supply in connection with the recent slowdown in economic growth and the need for workers in the rapidly expanding service sectors. Since 1961 a high turnover of skilled workers in Soviet industry has been symptomatic of serious shortages -- hardly the proper climate for further reductions in man-hours in those industries engaged in defense, space, and other priority programs. In addition, a reduction in the workweek at schools, hospitals, retail stores, and other service facilities might seriously curtail the very services that Khrushchev has promised to improve.

* In Soviet usage the term workers and employees refers to persons employed in enterprises owned and operated by the government. It excludes collective farmers, who in general are not covered by the wage and hour laws. About 70 million persons, or two-thirds of the Soviet labor force, were classified as workers and employees in 1963.

C-O-N-F-I-D-E-N-T-I-A-L

1. Hours of Work

In 1956 the workweek for all Soviet workers and employees was reduced from 48 to 46 hours, and plans were announced for a further gradual reduction to 41 hours by the end of 1960. This latter goal was included in the Seven Year Plan (1959-65) and, according to an official Soviet announcement, was completed on schedule. By the end of 1960, therefore, Soviet workers generally were on a 6-day, 41-hour workweek consisting of five 7-hour days and a 6-hour Saturday.*

This reduction in the workweek from 48 to 41 hours represented a reinstatement of work schedules that had been prevalent during the 1930's. The 7-hour day was decreed originally in January 1929 and was to be extended throughout Soviet industry, construction, transportation, and communications during the first Five Year Plan (1929-33). ^{1/} According to a Soviet publication issued in 1959, the average length of the working day in 1933 was 6.99 hours and of the workweek 40.2 hours. ^{2/} These work schedules were replaced in June 1940 by the longer, wartime work schedule of an 8-hour day and a 48-hour week, ^{3/} which continued in effect for more than 15 years until its gradual abandonment during 1956-60.

Further specific reductions in the workweek were scheduled for the period 1962-68, and some general goals were announced by the USSR for the period 1961-80. The Seven Year Plan, published in 1959, specified that an additional hour would be cut from the workweek in 1962 and that a 5-day, 40-hour week would be introduced wherever practicable. The Plan also specified that the shift to a 35-hour workweek would begin in 1964 and would be completed in 1968. The Twenty Year Program of the Communist Party, published in November 1961, indicated only that the 35-hour workweek would be achieved "in the coming 10 years" and that the workweek would be reduced even further during the following decade. No reductions in the workweek have occurred since 1960, however, and no reductions are included in the economic plans for 1964 and 1965 that were announced in December 1963.

2. Minimum Wages

An increase in the minimum wage that originally was scheduled to take effect in 1962 will not be effective nationwide until 1965. The Seven

* Workers in certain mining and other hazardous occupations, as well as juveniles 15 to 17 years of age, were on a 6-hour day and a 36-hour workweek.

Year Plan called for an increase in the minimum monthly wage from 27 rubles in rural areas and 35 rubles in urban areas -- the minimum rates established in 1957 -- to 40 rubles and 45 rubles, respectively, in 1962.* On an hourly basis, this would constitute an increase from 15 kopecks and 20 kopecks to 22 kopecks and 25 kopecks,** respectively. This increase, however, currently is in effect for only about two-thirds of all workers and employees. According to the 1964-65 plan, it will not be in effect nationwide until 1965. Plans announced in 1958 to increase the minimum monthly wage further to 50 and 60 rubles, respectively, by 1965 have been dropped.

The establishment of higher minimum wages is part of a broad reorganization of the wage system that has been in progress since 1956. Originally scheduled for completion by the end of 1962, this reorganization will still be in progress in 1964 and 1965, according to the plans for those years. One of the goals of the reorganization -- the narrowing of income differentials between the high-paid and the low-paid workers -- was to be achieved in large part by raising the minimum wage. As a new wage system was introduced into each sector of the economy, it was to reflect the higher minimum in its wage scales.

By the end of 1961, about 40 million persons, or almost two-thirds of all workers and employees, had been transferred to a new wage system that presumably reflected the higher minimum wage. 4/ The remaining one-third were employed principally in the various service sectors of the economy, such as education, health, and public administration, that were slated for new wage systems in 1962. It is these service sectors where the reorganization is now planned for 1964-65 and where the higher minimum wage has not yet been introduced. As a result, wages in the service industries probably have lagged behind those in other sectors of the economy and may have caused some difficulty, for example, in recruiting teachers for the nation's schools in 1962 and 1963. Both teachers and doctors are specifically earmarked for pay raises during the next 2 years. 5/

* A nominal rate of exchange based on the gold content of the respective currencies is 0.90 ruble to US \$1. This rate, however, should not be interpreted as an estimate of the equivalent dollar value of similar US goods and services.

** One ruble is equal to 100 kopecks.

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3. Income Tax

At the 21st Congress of the Communist Party in 1958, Khrushchev announced that the USSR would abolish the income tax by 1965. Khrushchev's plan represented an indirect method of raising take-home pay, and thereby purchasing power, without increasing wage rates. Tax-exempt income was to be raised gradually from 37 rubles monthly -- the level established in 1957 -- to 100 rubles monthly by October 1965. At that time the income of persons earning more than 100 rubles monthly would be reduced by an amount based on the income tax due.* The abolition of the income tax, therefore, was intended to narrow the gap between low-paid and high-paid workers as well as to increase the purchasing power of all except the highest paid workers.

The program proceeded on schedule in 1960 and 1961, when tax-exempt income was raised to 60 rubles monthly. (Average monthly earnings for all workers and employees were approximately 85 rubles in 1961.) In September 1962, however, it was announced that the tax-reduction program was being halted temporarily because of additional budgetary requirements. 7/ The program was not resumed in 1963, and the announced plans for 1964-65 make no mention of its resumption during those years.

The income tax is a relatively minor source of state revenue for the USSR, accounting for only 7 percent of total revenues in 1962. Most revenues -- about two-thirds -- are obtained from taxes on the profits of enterprises and from taxes on trade turnover. Income tax rates are very low, ranging currently from less than 1 percent up to 13 percent. 8/ Although the revenues from income taxes are small relative to the total budget, they constitute a significant sum in absolute terms -- 6 billion rubles in 1962.

4. Pensions

As a result of the overhaul of the social insurance program in the USSR in 1956, the average size of old-age pensions, as well as the number of persons receiving such pensions, increased by about 100 percent between 1955 and 1957, 9/ and pensions for those retired because

* Incomes of between 100 and 200 rubles would be cut by about one-half the amount of taxes due, and those of more than 200 rubles by the full amount of the tax. 6/

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of disability and for widows and dependents were increased by 50 to 65 percent. 10/

To keep pace with the planned increase in the minimum wage during the wage reform which began in 1956, the minimum monthly old-age pension was scheduled to be raised from 25.5 rubles in rural areas and 30 rubles in urban areas -- the minimum rates set in 1956 -- to 34 rubles and 40 rubles, respectively, in 1963 and to 45 rubles and 50 rubles, respectively, in 1966. Corresponding changes were to be made in the minimum disability and survivors' pensions. No such increases have been made, however, and only a brief reference to raising disability pensions appears in the plan for 1964-65.

Although the delay in raising minimum pensions may represent part of a larger effort to hold down purchasing power, it also may constitute an effort to encourage older workers to remain in, or to return to, the labor force. The existing pension law penalizes pensioners who remain in the labor force for more than 2 months in any year by limiting their pensions to 15 rubles monthly if their earnings are less than 100 rubles and by eliminating their pensions completely if their earnings exceed 100 rubles. In the RSFSR, following the passage of the law in 1956, the proportion of old-age pensioners who were employed declined from 36.2 percent in 1956 to 8.4 percent in 1961. 11/ In an apparent effort to reverse this downward trend, and at the same time to encourage farm employment among older persons, the Ministry of Social Security of the RSFSR decreed in July 1961 that old-age pensioners employed on farms would receive full pension benefits regardless of their income. 12/

The rise in disability pensions that now is planned for 1964-65 may be intended to compensate for an actual reduction in such pensions that was decreed in December 1961. 13/ According to that decree, job-connected disability pensions were to be determined on the basis of the worker's responsibility for the accident. If it were determined, for example, that the responsibility for an accident was shared equally by the worker and the enterprise, then the pension would be reduced by 50 percent.

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